

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

July 19, 2017

9:00 a.m.

Treasury Board Conference Room

James Monroe Building

101 N. 14th Street, 3rd Floor

Richmond, Virginia

Members Present: Manju S. Ganeriwala, Chairwoman
Neil Amin
Craig Burns
James Carney
Lou Mejia
David Von Moll

Members Absent: Douglas Densmore

Others Present:	Don Ferguson	Office of the Attorney General
	Susan Bagato	Auditor of Public Accounts
	Nelson Bush	PFM Group
	Eric Barton	Secretary of Finance
	Adam Rosatelli	Senate Finance Committee
	Beau Blevins	VML/VACO
	Brian Moore	Wells Fargo Advisors
	T.C. Wilson	Wells Fargo Advisors
	Janet Aylor	Department of the Treasury
	Belinda Blanchard	Department of the Treasury
	Leslie English	Department of the Treasury
	Debora Greene	Department of the Treasury
	Brad Jones	Department of the Treasury
	Harold Moore	Department of the Treasury
	John Ockerman	Department of the Treasury
	Kristin Reiter	Department of the Treasury
	Sandra Stanley	Department of the Treasury
	Bill Watt	Department of the Treasury
	Tim Wilhide	Department of the Treasury

Call to Order and Approval of Minutes

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:06 a.m.

Chairwoman Ganeriwala asked if there were any changes or revisions to the Minutes of the May 25, 2017 meeting. There being none, Chairwoman Ganeriwala asked for a vote of approval of the minutes. Mr. Burns moved for approval, Mr. Amin seconded, and the motion carried unanimously.

Chairwoman Ganeriwala then introduced Eric Barton, a Governor's Fellow assigned to the Office of the Secretary of Finance who was in attendance.

Public Comment

None

Action Items

Motion to Procure a Line of Credit for the Energy Leasing Program

Janet Aylor reviewed the motion to procure a line of credit for the Energy Leasing Program. The current contract expires at the end of September. The motion allows Treasury to move forward with a Request for Proposal.

Discussion ensued.

Chairwoman Ganeriwala asked for a motion to approve. Mr. Von Moll moved it, Mr. Amin seconded, and the motion carried unanimously.

Motion Ratifying the Annual Transfer of Funds from the Tobacco Indemnification and Community Revitalization Endowment to the Tobacco Indemnification and Community Revitalization Fund (TICR)

In June, a request was received from the Tobacco Indemnification and Community Revitalization Fund requesting to draw down four percent of their endowment, which is an action routinely done every year. Since the endowment must be drawn down by June 30th, and there was no Treasury Board meeting in June, the Treasurer approved and the transfer was completed. This motion allows the Treasury Board to ratify her approval.

It was asked if the draw down is going to be repeated every year, and if so is it possible that the Treasury Board issue a standing resolution to allow the Treasurer to take this action as necessary. Treasury will discuss the transaction with the TICR Board to make sure they make their request early or a standing resolution can be brought to the Board for approval.

Chairwoman Ganeriwala asked for a motion to approve. Mr. Von Moll moved that the Resolution be adopted. Mr. Carney seconded, and the motion carried unanimously.

Motion to amend the 2016 SNAP Contract Between Treasury Board and PFM Asset Management LLC

In 2016, Treasury Board signed a new contract converting the SNAP Program portfolio to an LGIP from a 2a-7 mutual fund. The original contract included a statement that the APA would audit the new LGIP. APA has since informed Treasury staff that this is not in the scope of their duties. This motion requests the contract be amended by removing the reference to the APA and replacing it with the statement that Treasury will retain an independent certified public accountant to serve as Auditor.

Tim Wilhide read the motion and discussion ensued.

Mr. Carney asked for an amendment to the Motion. He recommended inserting “in its entirety as follows” after “9.3 Auditor is amended”:

Chairwoman Ganeriwala asked for a motion to approve. Mr. Carney moved that the motion be adopted as amended. Mr. Mejia seconded, and the motion carried unanimously.

Resolution in Recognition and Appreciation of Belinda Blanchard

Chairwoman Ganeriwala introduced Belinda Blanchard and thanked her for her service to the Commonwealth. Mr. Wilhide also thanked Belinda and spoke about her strengths, knowledge and work ethic. Chairwoman Ganeriwala then read the Resolution.

Chairwoman Ganeriwala asked that the Resolution be amended: In the fourth Whereas clause, strike 400 Virginia localities, and insert “400 local government account holders”.

Chairwoman Ganeriwala asked for a motion to approve the Resolution. Mr. Amin moved the amended Resolution be adopted. Mr. Von Moll seconded, and the Resolution carried unanimously.

Optimal Presentation on the EDCP Portfolio – Active vs. Passive Investing

T.C. Wilson indicated that a couple of managers are not meeting their performance measures. The two managers consistently lagging the benchmarks are Goldman Sachs and Wellington. They have underperformed net of fees for a long period of time. Goldman has underperformed by 70 basis points net of fees for 10 years. Wellington has underperformed by 40 basis point net of fees per year over 10 years.

Optimal Performance Group recommends evaluating whether or not Treasury should replace these two managers. If so, should they be replaced with active managers or consider a passive option. Mr. Wilson believes we should explore both of these options.

Tim Wilhide indicated that Wellington has not changed their strategy to improve performance. Goldman has underperformed for various reasons, including their interest rate positioning which frequently has not worked. By contrast, the other EDCP intermediate managers, IR&M, has performed well and is an example of managers should be doing.

If the Board chooses to make a change, Mr. Wilson and Mr. Moore will bring in a list of candidates based on Treasury’s needs. Then Treasury will cut this list down to 2-3 names. These managers will then come in for one-on-one meetings before a firm is selected.

Mr. Wilson indicated that smaller firms may be more interested in managing to Treasury’s particular guidelines. Active managers have a number of advantages with fixed income, including sector rotation and security selection. Passive management minimizes risk taking in order to perform similarly to the benchmark. Passive management is not without some risk

exposure and may underperform slightly after fees. Passive management fees are about half of active management fees.

Mr. Wilson and his staff have researched passive managers interested in managing to Treasury's guidelines. They indicated that they could replicate the benchmark and reduce the tracking error to within 5-10 basis points. Northern Trust, State Street, Hartford, BlackRock and Newberger and Berman were the firms consulted.

Board members asked if there is anything in the Board's policies that should be amended if we choose to go to passive management. Mr. Wilson said the current policies fit well, as it gives the manager the ability to overweight certain sectors.

It was decided that the discussion be continued.

Staff Reports

Debt Management

Janet Aylor reviewed the final financing summary for the Commonwealth Transportation Board Transportation Capital projects Revenue Bonds, Series 2017. The true interest cost was 3.1% and the estimated cost of issuance was \$270,000 for these 25-year bonds. Bank of America Merrill Lynch was selected as the underwriter.

She then reviewed Debt Calendar as of June 30, 2017. She indicated that the College Building Authority bonds will be sold in July.

Ms. Aylor also reviewed the leasing reports as of June 30, 2017. She informed the Board that \$4.5 million was provided during the month leaving \$16.7 million available through the line of credit in the Master Lease Program. There was no activity with the Energy Lease Program.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended May 31, 2017. Ms. Reiter reported that one bank was undercollateralized for the month (First Citizens Bank and Trust). The bank was under by \$6.6 million due to larger than expected deposits on the last day of the month. Additional collateral was pledged. Ms. Reiter noted that the IDC ratings have been updated from what was reported last month using IDC's 4th quarter 2016 ratings. One bank (Essex bank) has been removed, and two banks, (EVB and Bluegrass Valley Bank) were added to the list.

Investments

Mr. Wilhide reviewed the SNAP report as of July 11, 2017. The fund's assets were valued at \$3.6 billion. The monthly yield was 1.11%, same as the month prior. The weighted average maturity of the fund was 48 days. There were \$530 million in new bond issuances for the month.

Mr. Wilhide also reviewed the Investment reports for the month ended June 30, 2017. The General Account portfolio was \$5.6 billion, down \$100 million from the month prior. The

average yield on the Primary Liquidity portion of the General Account was 1.11%, up five basis points from the month prior. Mr. Wilhide explained that the Extended Duration portion of the portfolio had a yield to maturity of 2.26 %. This resulted in the composite yield being 1.37% for the month.

Mr. Wilhide then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all measures for the month of June. The LGIP portfolio was up \$1 billion from the month prior and is valued at \$4.1 billion. The average yield on the portfolio was 1.09%, up three basis points from the month prior. The average maturity was 47 days, up 25 days from the previous month.

Other Business

Chairwoman Ganeriwala stated the August meeting of Treasury Board would be held on August 23rd. She then adjourned the meeting at 10:17 a.m.

Respectfully submitted,



Michael R. Tutor, Secretary
Commonwealth of Virginia Treasury Board

